Sanitized Copy Approved for Release 2010/09/09 : CIA-RDP90-00806R000100500068-1

STAT

2

ARTICLE APPEARED ON PAGE A-10

NEW YORK TIMES
18 October 1985

Arms and the Booming Loc

By JEFF GERTH
Special to The New York Times

WASHINGTON, Oct. 17 — At first glance, most arms deals here seem to involve superpower negotiations or a General Dynamics, the Pentagon or some other member of what some call the military-industrial complex.

But there is another kind of arms network in the nation's capital. It is smaller, more homegrown, often involves private individuals and relatively small companies and goes all but unnoticed except by insiders and law enforcement agents.

Despite their low visibility, these arms dealers help sell a variety of products, from small arms and spare parts to helicopters and jet fighters. Their customers include legitimate governments in Europe, Africa, Latin America and Asia, as well as rebel forces. Washington dealers, participants say, have handled the sale of aircraft to United States-supported rebels fighting the Sandinistas in Nicaragua, sold machine guns to Middle Eastern nations and helped foreign governments buy fighter planes from the Air Force.

A Lot of People and Money

One Federal official who investigates arms deals in the Washington area describes the workings of this low-profile market this way:

"There are a lot of people around here with a suite of offices making a lot of money. Washington is the headquarters for all this stuff because of the embassies, the military attachés. The shipments are in other places. Washington is strictly where the paperwork gets done."

By some estimates, as many as 300 companies here try to buy or sell in the international market. They are spread from suburban Maryland to Georgetown, to Virginia locations near the Pentagon, Central Intelligence Agency or Dulles International Airport. In addition, hundreds more military attachés and representatives of foreign countries and companies are based here.

Most deals are legal, licensed by the United States Government. But most local companies are not eager for publicity. Calls placed to dozens of companies produced few people willing to talk on the record. One company, Crawford International, which advertises in the Yellow Pages that it sells military equipment, repeatedly did not answer its phone one business day. Still others are not listed or have unpublished numbers.

For example, Investair Leasing Corporation, which is run by former C.I.A. officials and is involved in brokering military-related aircraft, has an unlisted number. And the room for Investair's office, which is listed on the directory of a building at Dulles Airport, does not exist.

It is no mystery, though, why Washington has emerged as a major hub for international arms deals.

Companies prefer to be close to the Federal agencies that license the export of American equipment. These agencies include the State Department's Office of Munitions Controls, which issues 40,000 export licenses a year, as well as the Bureau of Alcohol, Tobacco and Firearms and the Department of Commerce.

Even companies situated elsewhere, such as the Los Angeles-based Sherwood International Export Corporation, which imports and exports small arms, often have Washington offices. "People are based in Washington to be close to the State Department for licensing purposes," said Lynn Channing, Sherwood's operations manager here.

Still other deal makers have recently retired from the Pentagon or the C.I.A. and have gone into business capitalizing on their access to their former employers as well as foreign officials. One former Army intelligence officer now involved in brokering arms deals said, "This is the hub, where the embassies are. People work the embassies."

Similarly, military attachés for foreign governments who are based in Washington are also out "shopping for deals, as well as snooping, picking up a little information," said another deal maker.

The Department of Defense is a silent partner in many transactions. It finances billions of dollars of foreign military sales annually, and Pentagon rules and regulations also help shape the market.

One regulation, for example, prohibits brokerage fees or commissions over $50,000 on any Pentagon-financed sale. Brokers say the limitation, which was imposed in the 1970's after disclosure of numerous questionable payments in foreign arms sales, is unjust.

Lieut. Col. Don Brownlee, a spokesman for the Defense Security Assistance Agency, which administers foreign military sales, explained the limitation by saying: "Pentagon money is paid to a government to purchase United States goods or services and not commissions for the procurement of those services."

As a result of the limitation, brokers say they have diversified their services; acting directly as a supplier, or becoming involved in logistics or offering advice to foreign governments.

The Washington brokerage market has expanded in recent years. A former Pentagon official now in private business explained the evolution this way: "I started in the business in the early 1970's. There were five or six people then doing sales through the local embassies."

"It was a friendly business, a small club, everybody made money," he went on. But after outsiders heard about the business, he said, "people started cutting throats and prices and the market diversified." The broker, like most others interviewed, did not want his name used because he feared he would lose business.

The Biggest and Riskiest Market

The Middle East represents the biggest and riskiest marketing opportunity for brokers. Acccording to the Defense Department, $5.7 billion in Pentagon-financed foreign military sales were recorded in 1984 and more than half involved Israel or Egypt.

These countries rarely use brokers or intermediaries. Iran, on the other hand, desperate for American military equipment to use in its war with Iraq, is in contact with numerous brokers as part of a multibillion-dollar procurement effort. Some brokers try to make deals with both Iran and Iraq, running the risk of losing a customer. Others get into even more trouble.

Within the last few months, two Washington area brokers, one in Virginia and one in Maryland, have been charged with conspiring to smuggle military equipment to Iran. In addition, according to Federal law enforcement officials, one arms broker in Washington is under investigation by the Federal Bureau of Investigation for missile deals with Iran.

Sanitized Copy Approved for Release 2010/09/09 : CIA-RDP90-00806R000100500068-1